

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00
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P R 291516Z AUG 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 6789
TREASURY DEPT WASHDC PRIORITY
INFO AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL ANPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE
AMCONSUL TURIN

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PASS FRB

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJ: BANK OF ITALY LOWERS DISCOUNT RATE TO 11.5 PERCENT

1. ON FRIDAY, AUGUST 26, AT THE CONCLUSION OF THE
FIRST CABINET MEETING AFTER THE AUGUST VACATION, TREASURY
MINISTER STAMMATI ANNOUNCED THAT EFFECTIVE IMMEDIATELY (I.E.,
AUGUST 29) THE BANK OF ITALY'S BASE RATE ON ADVANCES TO
COMMERCIAL BANKS (THE DISCOUNT RATE) WAS REDUCED TO 11.5 FROM
13 PERCENT. THE MAXIMUM PENALTY FOR REPEATED USE OF DISCOUNT
FACILITY REMAINS UNCHANGED AT 3 PERCENTAGE POINTS, GIVING
MAXIMUM DISCOUNT RATE OF 14.5 PERCENT. THE DISCOUNT RATE WAS
LAST CHANGED IN JUNE OF THIS YEAR WHEN IT WAS LOWERED FROM 15
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TO 13 PERCENT. IT HAD STOOD AT THE HISTORIC HIGH OF 15 PERCENT
SINCE OCTOBER 1976 WHEN IT WAS RAISED FROM 12 PERCENT AS ONE
OF THE EMERGENCY MEASURES TO STABILIZE THE LIRA.

2. MINISTER STAMMATI CITED THE FOLLOWING ECONOMIC DEVELOPMENTS
IN CONNECTION WITH THE DECISION TO REDUCE THE DISCOUNT RATE:
(1) THE SLOWING OF THE RATE OF INFLATION; (2) IMPROVEMENTS IN BOTH

THE TRADE BALANCE AND OVERALL BALANCE OF PAYMENTS AND INFLOWS OF FOREIGN EXCHANGE THAT CONTINUE TO AUGMENT OFFICIAL RESERVES; AND (3) THE GENERAL DECLINE OF MARKET RATES OF INTEREST IN RECENT MONTHS. HE STATED THAT THE OVERALL BALANCE OF PAYMENTS WAS IN SURPLUS IN JULY BY 935 BILLION LIRE (ABOUT DLR 1.1 BILLION) AND THAT AVAILABLE FOREIGN EXCHANGE DATA FOR THE FIRST HALF OF AUGUST WERE ALSO POSITIVE. HE SAID OFFICIAL RESERVES WERE DLR7.1 BILLION AT THE END OF JULY, COMPARED WITH DLR2.9 BILLION AT THE END OF MARCH. STAMMATI ALSO POINTED OUT THAT IN THE SECOND QUARTER 1977 WHOLESALE PRICES HAD RISEN AT THE ANNUAL RATE OF 9.6. PERCENT COMPARED TO 17.2 PERCENT IN THE FIRST QUARTER, THAT THE INTERBANK INTEREST RATE WAS 13.4 PERCENT IN JULY COMPARED TO 15.2 PERCENT IN MAY AND THAT THE YEALD ON 3-MONTH TREASURY BILLS HAD SIMILARLY DECLINED.

3. BANK OF ITALY(BOI) OFFICIAL TOLD TREASURY ATTACHE THAT DISCOUNT RATE CHANGE CONSTITUTED IN PART BOI'S "BLESSING" ON RECENT DECLINE IN MARKET RATES OF INTEREST. BOI ALSO HOPED THAT LOWERING OF DISCOUNT RATE WOULD HELP SMOOTH THE YIELD CURVE, IN WHICH THERE IS AT PRESENT A HUMP IN THE 6 TO 12 MONTH MATURITIES; I.E., YIELDS ON 6 TO 12 MONTH MATURITIES ARE HIGHER THAN ON BOTH SHORTER AND LONGER MATURITIES. SINCE THE LOWERING OF THE DISCOUNT RATE REDUCES THE COST OF BORROWING FOR THE BANKING SYSTEM AND THE AVERAGE COST OF BANKS' LIABILITIES, IT MAY RESULT IN A LOWERING IN BANKS' LENDING RATES BUT IT IS NOT EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE AMOUNT OF BANK CREDIT TO THE

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ECONOMY SINCE THIS IS STILL SUBJECT TO DIRECT QUANTITATIVE CONTROLS.

4. ANY REDUCTION IN BANKS' LENDING RATES, E.G., THE PRIME RATE, WOULD REDUCE THE FINANCIAL COSTS OF FIRMS, WHICH ARE HEAVILY INDEBTED TO THE BANKS, AND MITIGATE INFLATIONARY COST PRESSURES. ANALYSTS BELIEVE THAT WHILE SUCH A LOWERING IN SHORT-TERM BANK RATES MIGHT INCREASE INVESTMENT IN INVENTORIES, IT WOULD NOT SIGNIFICANTLY INCREASE INVESTMENT IN EXPANDING PRODUCTIVE CAPACITY.HOLMES

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
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